

**HOMER COMMUNITY SCHOOLS**  
**REPORT ON FINANCIAL STATEMENTS**  
**(with required and supplementary and additional information)**  
**YEAR ENDED JUNE 30, 2004**

## CONTENTS

	<u>Page</u>
<b>Independent auditors' report</b> .....	iv - v
<b>Management's Discussion and Analysis</b> .....	vi – xii
<b>Basic financial statements</b>	
Government-wide financial statements	
Statement of net assets .....	1
Statement of activities .....	2
Fund financial statements	
Balance sheet – governmental funds .....	3
Statement of revenue, expenditures and changes in fund balance – Governmental funds .....	4 - 5
Reconciliation of the statement of revenues, expenditures and changes in Fund balances of governmental funds to the statement of activities .....	6
Agency funds	
Statement of fiduciary net assets .....	7
Statement of changes in fiduciary net assets .....	8
Notes to financial statements .....	9 - 22
<b>Required supplementary information</b> .....	23
Budgetary comparison schedule – general fund .....	24
<b>Additional information</b> .....	25
Nonmajor governmental fund types	
Combining balance sheet .....	26

## CONTENTS

	<u>Page</u>
Combining statement of revenues, expenditures, and changes in fund balances .....	27
Special revenue funds	
Combining balance sheet .....	28
Combining statement of revenues, expenditures and changes in fund balances .....	29
Capital projects fund	
Balance sheet.....	30
Statement of revenues, expenditures and changes in fund balance .....	31
Fiduciary funds	
Schedule of cash receipts, disbursements and liabilities by activity - agency fund.....	32 - 33
Long-term debt	
Bonded debt .....	34
Report on compliance and on internal control over financial reporting based on an audit of Financial statements performed in accordance with <i>Government Auditing Standards</i> .....	35 - 36



Gary W. Brya  
Lamonte T. Lator  
Bruce J. Dunn  
Jeffrey C. Stevens  
Linda L. Schirmer  
Steven W. Scott  
David M. Racek  
Robert E. Miller, Jr.  
Steven B. Robbins  
James E. Nyquist

James R. Dedyne  
Timothy H. Adams  
David B. Caldwell  
Edward L. Williams, III  
Timothy J. Orians  
Dennis D. Theis  
  
Walter P. Maner, Jr.  
Floyd L. Costerisan  
Leon A. Ellis (1933-1988)

## INDEPENDENT AUDITOR'S REPORT

To the Board of Education  
Homer Community Schools  
Homer, Michigan

July 15, 2004

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Homer Community Schools, as of and for the year ended June 30, 2004, which collectively comprise the basic financial statements of the District's primary governments listed in the table of contents. These financial statements are the responsibility of Homer Community Schools' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The financial statements referred to above includes only the primary government of Homer Community Schools, which consists of all funds, organizations, institutions, agencies, departments, and offices that comprise Homer Community Schools' legal entity. The financial statements do not include financial data for Homer Community Schools' legally separate component unit, which accounting principles generally accepted in the United States of America require to be reported with the financial data of Homer Community Schools' primary government. As a result, the primary government financial statements do not purport to, and do not, present fairly the financial position of the reporting entity of Homer Community Schools, as of June 30, 2004, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information for the primary government of Homer Community Schools as of June 30, 2004 and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

To the Board of Education  
Homer Community Schools

July 15, 2004

As described in Note 1, the District has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, as of June 30, 2004.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 15, 2004, on our consideration of Homer Community Schools’ internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management’s discussion and analysis and budgetary comparison information on pages vi through xii and 24, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Homer Community Schools’ basic financial statements. The additional information on pages 26 to 34 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This additional information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink that reads "Mamer, Costenizer & Ellis, P.C." The signature is written in a cursive, flowing style.

Certified Public Accountants

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

This section of Homer Community School District's (HCS) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2004. Please read it in conjunction with the District's financial statements, which immediately follow this section. In the future, comparative analysis will be provided when prior year information becomes available.

### **FINANCIAL HIGHLIGHTS**

The District's general fund financial situation improved from the 2003 fiscal year to 2004. This marked the 7<sup>th</sup> successive year in which the general fund showed improvement.

As expected, athletic fund had greater expenses for 2004 than revenue, this amount was budgeted in the general fund to cover the shortfall in the athletic fund.

The cafeteria program had greater expenses for 2004 than revenue of a deficit of \$14,044, prices for students and adult meals were not increased and the cafeteria paid \$20,000 for maintenance/custodial wages, maintenance supplies, utilities and bookkeeping expenses.

For the 2003/04 school year, the capital projects fund paid \$48,000 in new roofs and other items for the school. Homer Community Schools was able to transfer to building and site just over \$129,000 to be set a side for future needs of the District.

Total general fund revenues exceeded \$8.5 million dollars with spending around \$8.5 million dollars; total general fund revenues exceeded expenses by slightly over \$44,000. The District continues to participate in short-term loans, borrowing \$800,000 against anticipated state aid payments.

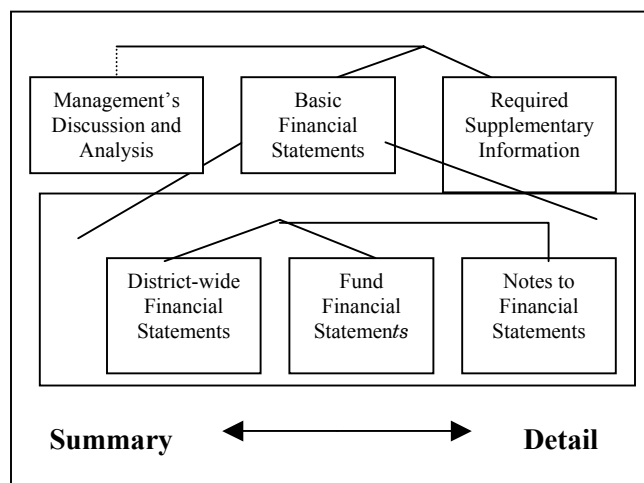
The District was able to add to fund equity even though student membership dropped by 11.44 students and with the cut in state aid funding of \$74 a student. Homer Community did not replace two teachers that retired at the close of the 2003 school year, which was a saving of approximately \$150,000 (wages and benefits). Included in the 2004 expenses are the purchases of two buses, a pick-up truck with snowplow and salt dispenser.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are district-wide financial statements that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the District, reporting the District's operations in more detail than the district-wide Notes to statements.
- The governmental funds statements tell how basic services like regular and special education were financed in the short-term as well as what remains for future spending.
- Fiduciary funds statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others.

**Figure A-1  
Organization of Homer Community  
School's Annual Financial Report**



The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District's budget for the year. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

<b>Figure A-2</b> <b>Major Features of District-Wide and Fund Financial Statements</b>			
	District-wide Statements	Fund Financial Statements	
		Governmental Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance.	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	* Statement of net assets * Statement of activities	* Balance sheet * Statement of revenues, expenditures and changes in fund balances	* Statement of fiduciary net assets * Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both short-term and long-term, Homer's funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and the related liability is due and payable	All additions and deductions during the year, regardless of when cash is received or paid

Figure A-2 summarized the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

## DISTRICT-WIDE STATEMENTS

The district-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statements of net assets include all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two district-wide statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the District, you need to consider additional nonfinancial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the district-wide financial statements, the District's activities:

- Governmental activities – Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property taxes and state formula aid finance most of these activities.

## **FUND FINANCIAL STATEMENTS**

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by State law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes (like repaying its building and site fund) or to show that it is properly using certain revenues (like school lunch and athletics).

The District has two kinds of funds:

- Governmental funds – Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, we provide additional information with the governmental funds statements that explain the relationship (or differences) between them.
- Fiduciary funds – The District is the trustee, or fiduciary, for assets that belong to others, such as the scholarship fund and the student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

## **FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE**

Net assets – The District's combined net assets were slightly more on June 30, 2004 than the year before, increasing \$69,117 to \$3,809,404. The other impact is District depreciation which was \$352,960 compared to District capital purchases in 2004 of \$356,754. While this year these figures were similar this will not always be the case.



**Table A-3**  
**Homer Community Schools**

	2004
Current assets	\$ 2,806,685
Capital assets	3,371,188
Total assets	<u>\$ 6,177,873</u>
Long-term debt outstanding	\$ 704,341
Other liabilities	1,664,128
Total liabilities	<u>2,368,469</u>
Net assets	
Invested in capital assets, net of related debt	3,163,915
Unrestricted	645,489
Total net assets	<u><u>\$ 3,809,404</u></u>

**Table A-4**  
**Changes in Homer Community School's Net Assets**

	2004
Revenues:	
Program revenues:	
Charges for services	\$ 332,483
Federal and state categorical grants	818,457
General revenues:	
Property taxes	665,936
Investment	7,191
State aid - unrestricted	6,611,422
ISD	530,999
Other	23,464
Total revenues	<u>8,989,952</u>
Expenses:	
Instruction	5,352,269
Support services	2,544,996
Outgoing transfers and other	26,876
Community services	71,160
Food services:	373,662
Athletics	196,721
Interest on long-term debt	2,191
Unallocated depreciation	352,960
Total expenses	<u>8,920,835</u>
Change in net assets	<u><u>\$ 69,117</u></u>

## **District Governmental Activities**

The District's good financial shape has come about through a number of areas.

- Proposal A which established the student foundation grant concept, and has increased that amount from \$4,352 per student in 1995 to \$6,626 per student in 2004.
- Student growth in the District has been ongoing. In fiscal year 1999 state aid membership was 1,129.72 and in four years has decreased by 5.16% to 1,071.41.
- Many of the District's employees have been part of a total compensation method of determining their wage and benefit package, which has allowed the District's total compensation to generally keep pace with decrease District revenues.
- Homer Community School changed the health insurance benefit to a higher deductible and prescription co-pay. The change in the benefit lowered the cost of premium, which resulted in a saving to the District.

## **FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS**

The good financial performance of the District as a whole is reflected in its governmental funds, with a combined fund balance of \$1.262 million compared to \$1.231 million in 2003. The fund balance increased by \$30,652 for the year.

Although total fund balances increased, both the school lunch fund and athletic funds had expenditures greater than revenues. Food service expenditures were about 3.91% greater than yearly revenues, while Athletic spending was over 20% greater than revenues. For fiscal 2004, lunch prices did not increase, the cafeteria ended with a fund balance of \$83,397 covering the District for three months of expense obligations. The general fund contribution to the athletic fund brought this fund to its expected balance of matching revenues to expenditures.

### **General Fund and Budget Highlights**

During the 2004 fiscal year the original District budget was amended several times to reflect changes which affected the District.

The initial amendment took place in the fall, once the student count and staff changes had been determined. Winter amendments took place to account for the unfavorable information coming from the state government regarding school financing. All programs and staff were maintained, only necessary expenditures were made to compensate for the decrease in funding from the state.

Spring amendments took place to more accurately reflect payouts, being made to District employees who were retiring, as well as the final state pro-ration of funds to school districts.

The final amended budget was to have revenue be \$4,000 higher than expenses. Final results showed that revenues came in slightly less (\$27,050) than were anticipated, but expenses came in even less (\$67,349). The net result was a change in fund balance of \$44,300, increasing the fund balance to \$1,043,555.

General fund expenditures came within 1% budgeted. Inventory controls allowed the District to reduce expenditures for summer cleaning and preparation for fall school opening. Utilities and fuel expense came in lower than anticipated for the month of June. Lower levels of students in Drivers Education program also reduced teacher time as well as car rentals to operate that program.

Overall the difference between the final District amended budget and end of the year figures amounted to about 1%. The change from the Board adopted budget of June 2003 amounted to revenues which were greater by 1.8% and expenditures which were within \$67,349 of the final budget.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

The District's capital assets are as follows:

<b>Table A-5</b> <b>Homer Community School's Capital Assets</b>			
	<b>Cost</b>	<b>Accumulated Depreciation</b>	<b>Net Book Value</b>
Land	\$ 15,000	\$	\$ 15,000
Buildings and improvements	5,202,224	2,770,575	2,431,649
Technology	519,950	450,776	69,174
Furniture and fixtures	1,777,441	1,308,507	468,934
Machinery and equipment	940,388	822,755	117,633
Transportation equipment	939,801	671,003	268,798
Total	<u>\$ 9,394,804</u>	<u>\$ 6,023,616</u>	<u>\$ 3,371,188</u>

Capital asset purchases throughout fiscal 2004 included high school roof, parking lot, equipment and three buses. The total of the areas was about \$356,000.

### LONG-TERM DEBT

At year-end the District had \$816,960 long-term debt outstanding as shown in Table A-6. More detailed information is available in Note 6 to the financial statements.

The District paid down its debt by \$57,380 while there were increases during the year of \$20,634.

The District issued \$5,600,000 of bonds after year-end.

<b>Table A-6</b> <b>Homer Community Schools</b> <b>Outstanding Long-Term Debt</b>	
	<b>2004</b>
General obligation bonds	\$ 129,411
Durant - limited obligation bonds	77,862
Compensated absences	609,687
	<u>\$ 816,960</u>

At the time these financial statements were prepared and audited, the District was aware of four existing circumstances that could significantly affect its financial health in the future:

## **FACTORS BEARING ON THE DISTRICT'S FUTURE**

- While the 2003-2004 foundation allowance has been finalized by the State of Michigan, the foundation allowance represents 84 percent of total District revenue. The weak state economy could require pro-rations in state aid.
- The end of fiscal year 2004 marked the expiration of the last three year teachers' agreement. Negotiations between the Board of Education are on-going, but at this point in time a new agreement has not yet been reached.
- The District is plaintiff with other school districts in a lawsuit against the State, seeking to rectify inequities in the formula the State uses to apportion special education aid to the districts.
- Students count is projected to decline slowly over the next five years.

## **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional information, contact the Business Office, Homer Community Schools, 403 S. Hillsdale St, Homer, Michigan 49245.

**HOMER COMMUNITY SCHOOLS  
STATEMENT OF NET ASSETS  
JUNE 30, 2004**

	<b>ASSETS</b>	<b>Governmental activities</b>
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents		\$ 678,944
Investments		692,709
Receivables:		
Other governmental units		1,428,811
Taxes		1,845
Inventories		4,376
<b>TOTAL CURRENT ASSETS</b>		<b>2,806,685</b>
<b>NONCURRENT ASSETS:</b>		
Capital assets		9,394,804
Less accumulated depreciator		(6,023,616)
<b>TOTAL NONCURRENT ASSETS</b>		<b>3,371,188</b>
<b>TOTAL ASSETS</b>		<b>\$ 6,177,873</b>
	<b>LIABILITIES AND NET ASSETS</b>	
<b>CURRENT LIABILITIES:</b>		
Accounts payable		\$ 99,764
Accrued interest		12,594
Accrued salaries and related items		602,780
Deferred revenue		36,371
Note payable		800,000
Current portion of long-term obligations		61,832
Current portion of compensated absences		50,787
<b>TOTAL CURRENT LIABILITIES</b>		<b>1,664,128</b>
<b>NONCURRENT LIABILITIES:</b>		
Noncurrent portion of long-term obligation:		145,441
Noncurrent compensated absences		558,900
<b>TOTAL NONCURRENT LIABILITIES</b>		<b>704,341</b>
<b>TOTAL LIABILITIES</b>		<b>2,368,469</b>
<b>NET ASSETS:</b>		
Invested in capital assets, net of related deb		3,163,915
Unrestricted		645,489
<b>TOTAL NET ASSETS</b>		<b>3,809,404</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>		<b>\$ 6,177,873</b>

**HOMER COMMUNITY SCHOOLS  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2004**

Functions/programs	Expenses	Program revenues		Governmental activities
		Charges for services	Operating grants	Net (expense) revenue and changes in net assets
Governmental activities				
Instruction	\$ 5,352,269	\$ 19,874	\$ 578,087	\$ (4,754,308)
Support services	2,544,996		85,205	(2,459,791)
Outgoing transfers and other transaction:	26,876			(26,876)
Community services	71,160	35,315		(35,845)
Food services	373,662	204,453	155,165	(14,044)
Athletics	196,721	72,841		(123,880)
Interest on long-term deb	2,191			(2,191)
Unallocated depreciation	352,960			(352,960)
Total governmental activities:	<u>\$ 8,920,835</u>	<u>\$ 332,483</u>	<u>\$ 818,457</u>	<u>(7,769,895)</u>
General revenues:				
Property taxes, levied for general purpose				665,936
Investment earnings				7,191
State sources				6,611,422
ISD special education allocation				530,999
Other				23,464
Total general revenues:				<u>7,839,012</u>
CHANGE IN NET ASSETS				69,117
NET ASSETS, beginning of year				<u>3,740,287</u>
NET ASSETS, end of year				<u>\$ 3,809,404</u>

See notes to financial statements.

**HOMER COMMUNITY SCHOOLS  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2004**

	<b>General fund</b>	<b>Other nonmajor governmental funds</b>	<b>Total governmental funds</b>
<b>ASSETS</b>			
<b>ASSETS:</b>			
Cash	\$ 384,941	\$ 294,003	\$ 678,944
Investments	692,709		692,709
Receivables:			
Other governmental units	1,428,811		1,428,811
Due from other funds		470	470
Taxes	1,845		1,845
Inventories		4,376	4,376
<b>TOTAL ASSETS</b>	<b>\$ 2,508,306</b>	<b>\$ 298,849</b>	<b>\$ 2,807,155</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES:</b>			
Accounts payable	\$ 23,227	\$ 76,537	\$ 99,764
Accrued interest	3,517		3,517
Accrued salaries and related items	602,780		602,780
Deferred revenue	34,757	3,459	38,216
Due to other funds	470		470
Note payable	800,000		800,000
<b>TOTAL LIABILITIES</b>	<b>1,464,751</b>	<b>79,996</b>	<b>1,544,747</b>

	<b>General fund</b>	<b>Other nonmajor governmental funds</b>	<b>Total governmental funds</b>
<b>FUND BALANCES:</b>			
Reserved for inventory	\$	\$ 4,376	\$ 4,376
Designated for compensated absence	609,687		609,687
Designated for subsequent year's expenditure	186,370		186,370
Undesignated	247,498	214,477	461,975
<b>TOTAL FUND BALANCES</b>	<u>1,043,555</u>	<u>218,853</u>	<u>1,262,408</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 2,508,306</u>	<u>\$ 298,849</u>	<u>\$ 2,807,155</u>
<b>TOTAL GOVERNMENTAL FUND BALANCE</b>			\$ 1,262,408
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources and are not reported in the funds			
The cost of the capital assets is		\$ 9,394,804	
Accumulated depreciation is		<u>(6,023,616)</u>	
			3,371,188
Long-term liabilities are not due and payable in the current period and are not reported in the funds:			
Bonds payable			(77,862)
Notes payable			(98,479)
Capital lease			(30,932)
Compensated absences			(609,687)
Accrued interest on long-term debt is not included as a liability in government funds, it is recorded when paid			(9,077)
Deferred revenue expected to be collected after September 1, 2004			
Property taxes at June 30, 2004			<u>1,845</u>
<b>Net assets (deficit) of governmental activities</b>			<u>\$ 3,809,404</u>

See notes to financial statements



**HOMER COMMUNITY SCHOOLS**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**YEAR ENDED JUNE 30, 2004**

	<b>General fund</b>	<b>Other nonmajor governmental funds</b>	<b>Total governmental funds</b>
<b>REVENUES:</b>			
Local sources:			
Property taxes	\$ 665,820	\$	\$ 665,820
Investment income	5,813	1,378	7,191
Other	61,065	286,882	347,947
	<hr/>	<hr/>	<hr/>
Total local sources	732,698	288,260	1,020,958
State sources	7,011,783	9,327	7,021,110
Federal sources	262,931	145,838	408,769
Incoming transfers and other transactions	530,999		530,999
	<hr/>	<hr/>	<hr/>
Total revenues	8,538,411	443,425	8,981,836
	<hr/>	<hr/>	<hr/>
<b>EXPENDITURES:</b>			
Current:			
Instruction:			
Basic programs	4,266,561		4,266,561
Added needs	1,070,810		1,070,810
Adult and community education	37,178		37,178
	<hr/>		<hr/>
Total instruction	5,374,549		5,374,549
	<hr/>		<hr/>
Support services:			
Pupil	185,191		185,191
Instructional staff	178,660		178,660
General administration	183,923		183,923
School administration	444,471		444,471
Business	280,268		280,268
Operations and maintenance	858,072		858,072
Transportation	615,232		615,232
Central	33,417		33,417
	<hr/>		<hr/>
Total support services	2,779,234		2,779,234
	<hr/>		<hr/>

See notes to financial statements.

**HOMER COMMUNITY SCHOOLS**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**YEAR ENDED JUNE 30, 2004**

	<b>General fund</b>	<b>Other nonmajor governmental funds</b>	<b>Total governmental funds</b>
<b>EXPENDITURES (Concluded):</b>			
Current (Concluded):			
Athletics	\$	\$ 196,721	\$ 196,721
Community services	75,943		75,943
Food service		373,662	373,662
Outgoing transfers and other transactions	26,876		26,876
Capital outlay		148,028	148,028
	<hr/>	<hr/>	<hr/>
Total expenditures	8,256,602	718,411	8,975,013
	<hr/>	<hr/>	<hr/>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	281,809	(274,986)	6,823
	<hr/>	<hr/>	<hr/>
<b>OTHER FINANCING SOURCES (USES):</b>			
Proceeds from capital lease	15,829		15,829
Sale of school assets		8,000	8,000
Operating transfers in		253,338	253,338
Operating transfers out	(253,338)		(253,338)
	<hr/>	<hr/>	<hr/>
Total other financing sources (uses)	(237,509)	261,338	23,829
	<hr/>	<hr/>	<hr/>
<b>NET CHANGE IN FUND BALANCES</b>	44,300	(13,648)	30,652
	<hr/>	<hr/>	<hr/>
<b>FUND BALANCES:</b>			
Beginning of year	999,255	232,501	1,231,756
	<hr/>	<hr/>	<hr/>
End of year	\$ 1,043,555	\$ 218,853	\$ 1,262,408
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

**HOMER COMMUNITY SCHOOLS  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2004**

<b>Net change in fund balances total governmental funds</b>	<b>\$ 30,652</b>
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. In the statement of activities, these costs are allocated over their estimated useful lives as depreciation.	
Depreciation expense	(352,960)
Capital outlay	356,754
Accrued interest on bonds is recorded in the statement of activities when incurred; it is not recorded in governmental funds until it is paid:	
Accrued interest payable, beginning of the year	6,886
Accrued interest payable, end of the year	(9,077)
Proceeds of long-term debt are other financing sources and principal payments are expenditures in the governmental funds, but not in the statement of activities (where they are additions and reductions of liabilities)	
Principal repayment	57,380
Proceeds from capital lease	(15,829)
Revenue is recorded on the accrual method in the statement of activities; in the governmental funds it is recorded on the modified accrual method and not considered available:	
Deferred revenue, beginning of the year	(1,729)
Deferred revenue, end of the year	1,845
Compensated absences are reported on the accrual method in the statement of activities, and recorded as an expenditure when financial resources are used in the governmental funds:	
Accrued compensated absences and severance benefits, beginning of the year	604,882
Accrued compensated absences and severance benefits, end of the year	(609,687)
<b>Change in net assets of governmental activities</b>	<b>\$ 69,117</b>

**HOMER COMMUNITY SCHOOLS  
STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
JUNE 30, 2004**

	<b>Private purpose trust fund</b>	<b>Agency fund</b>
<b>ASSETS</b>		
Cash	\$ 23,802	\$ 114,214
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES:</b>		
Due to student groups	\$	\$ 114,214
<b>NET ASSETS:</b>		
Reserved for trust activities	23,802	
<b>TOTAL LIABILITIES AND NET ASSETS</b>	\$ 23,802	\$ 114,214

**HOMER COMMUNITY SCHOOLS  
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUND  
YEAR ENDED JUNE 30, 2004**

	<u>Private purpose trust fund</u>
<b>ADDITIONS:</b>	
Interest earnings	\$ 690
<b>DEDUCTIONS:</b>	
Other	<u>\$ 129</u>
<b>CHANGE IN NET ASSETS</b>	561
<b>NET ASSETS:</b>	
Beginning of year	<u>23,241</u>
End of year	<u><u>\$ 23,802</u></u>

## **HOMER COMMUNITY SCHOOLS NOTES TO FINANCIAL STATEMENTS**

### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The basic financial statements of the Homer Community Schools have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units, except as described in Note 1 B. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

#### **A. Adoption of New Accounting Standards**

During the fiscal period 2004, the District adopted GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, issued June 1999; GASB Statement 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments Omnibus*, an amendment to GASB Statement No. 21 and No. 34, issued June 2001, and in GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, issued in 2001. These statements require the District to prepare a Management's Discussion and Analysis, government-wide financial statements on an accrual basis, and make certain changes to the footnotes.

The following table shows beginning net assets restated for the effects of implementation of GASB Statement No. 34:

Fund balance at June 30, 2003 - governmental funds	\$ 1,231,756
Long-term liabilities (restated)	(248,824)
Net capital assets (restated)	3,367,394
Accrued interest	(6,886)
Deferred revenue - property taxes	1,729
Compensated absences and severance benefits	(604,882)
Restated net assets - July 1, 2003	<u><u>\$ 3,740,287</u></u>

#### **B. Reporting Entity**

The Homer Community Schools (the "District") is governed by the Homer Community Schools Board of Education (the "Board"), which has responsibility and control over all activities related to public school education within the District. The District receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by accounting principles generally accepted in the United States of America. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters.

**Component Unit.** The Max and Lucille Cortright Homer Education Foundation is a separate tax exempt not for profit corporation under Internal Revenue Code section 501(c)(3). The purpose is to provide additional funding for the education of the children of Homer. This entity has been excluded from these financial statements as a separate audit has not been performed.

## **HOMER COMMUNITY SCHOOLS NOTES TO FINANCIAL STATEMENTS**

### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **C. Government-wide and fund financial statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. The government-wide financial statements categorize primary activities as either governmental or business type. All of the District's activities are classified as governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school district and other unrestricted items are not included as program revenues but instead as *general revenues*.

In the government-wide statement of net assets, the governmental activities column (a) is presented on a consolidated basis, (b) and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The District first utilizes restricted resources to finance qualifying activities.

The government-wide statement of activities reports both the gross and net cost of each of the District's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, investment income and other revenue) The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources, intermediate district sources, interest income and other revenues.)

The District does not allocate indirect costs.

This government-wide focus is more on the sustainability of the District as an entity and the change in the District's net assets resulting from the current year's activities.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

## **HOMER COMMUNITY SCHOOLS NOTES TO FINANCIAL STATEMENTS**

### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **C. Government-wide and fund financial statements (Continued)**

**Governmental Funds** – Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use and balances of the school district's expendable financial resources and the related current liabilities are accounted for through governmental funds.

The District reports the following major governmental fund:

The *general fund* is the District's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund.

#### **Other Non-major Funds**

The *special revenue funds* account for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The District accounts for its food service and athletic activities in the special revenue funds.

The *capital projects fund* accounts for the receipt of debt proceeds and the acquisition of fixed assets or construction of major capital projects.

**Fiduciary funds** account for assets held by the District in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the District under the terms of a formal trust agreement. Fiduciary funds are not included in the government-wide statements.

The *private purpose trust* fund is accounted for using the accrual method of accounting. Private purpose trust funds account for assets where interest payments may be spent for student scholarships. These funds are not the District financial statements.

The *agency fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. This fund is used to account for assets that the District holds for others in an agency capacity (primarily student activities).

#### **D. Measurement Focus, Basis of Accounting and Basis of Presentation**

##### **Accrual Method**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.



**HOMER COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Measurement Focus, Basis of Accounting and Basis of Presentation (Continued)**

**Modified Accrual Method**

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, state and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

**State Revenue**

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2004, the foundation allowance was based on pupil membership counts taken in February and September of 2003.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period and is funded through payments from October 2003 to August 2004. Thus, the unpaid portion at June 30th is reported as due from other governmental units.

The District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Categorical funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue.

**HOMER COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**E. Other Accounting Policies**

1. Cash and equivalents include amounts in demand deposits and certificates of deposit.

The District reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the district intends to hold the investment until maturity. Accordingly, investments in banker acceptances and commercial paper are recorded at amortized cost.

State statutes authorize the District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The District is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

2. Property Taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied and become a lien as of July 1 and December 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy year. The actual due dates are September 14 and February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

For the year ended June 30, 2004, the District levied the following amounts per \$1,000 of assessed valuation:

Fund	Mills
General Fund - Non-homestead	18.0000

**HOMER COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**E. Other Accounting Policies (Continued)**

3. Inventories and Prepaid Expenditures

Inventories are valued at the lower of cost (first-in, first-out) or market. Inventories consisting of expendable supplies held for consumption, are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenditures.

4. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

All receivables, including property taxes receivable, are shown net of an allowance for uncollectibles.

5. Capital Assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Buildings and additions	50 years
Furniture and other equipment	5 – 20 years

The District's capitalization policy is to capitalize individual amounts exceeding \$5,000.

6. Compensated Absences

The District's contracts generally provide for granting vacation and sick leave with pay. The current and long-term liability for compensated absences is reported on the government-wide financial statements. A liability for these amounts, including related benefits, is reported in governmental funds only if they have matured, for example, as a result of employee leave, resignations or retirements.

**HOMER COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)**

**E. Other Accounting Policies (Concluded)**

7. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net assets. Bond premiums and discounts, as well as issuance costs and the difference between the reacquisition price and the net carrying amount of the old debt, are deferred and amortized over the life of the bonds using the straight line method over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

8. Use of Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

**NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the general and special revenue funds.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Public hearings are conducted to obtain taxpayer comments.

**HOMER COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Concluded)**

3. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, in the general fund are noted in the required supplementary information section.
4. The Superintendent of Business is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.
5. Formal budgetary integration is employed as a management control device during the year for the general and special revenue funds.
6. The budget was amended during the year with supplemental appropriations, the last one approved prior to June 30, 2004. The District does not consider these amendments to be significant.

**NOTE 3 - DEPOSITS AND INVESTMENTS - CREDIT RISK**

Cash and cash equivalents are held separately in the name of the District by each of the District's funds.

Deposits

At year-end, the carrying amount of the District's deposits were \$816,960 and the bank balance was \$894,007 of which \$200,000 was covered by federal depository insurance and \$694,007 was uninsured and uncollateralized. The District places its deposits with high quality financial institutions. Although such deposits exceed federally insured limits, they are, in the opinion of the District, subject to minimal risk.

Statement of net assets	\$ 678,944
Statement of fiduciary net assets:	
Agency fund	114,214
Private purpose trust fund	<u>23,802</u>
	<u><u>\$ 816,960</u></u>

**HOMER COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 3 - DEPOSITS AND INVESTMENTS - CREDIT RISK (Continued)**

Investments

Investments are categorized into these three categories of credit risk:

1. Insured or registered, or securities held by the District or its agent in the District's name.
2. Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the District's name.
3. Uninsured and unregistered, with the securities held by the counterparty, or by its trust department or agent but not in the District's name.

	Category			Carrying amount
	1	2	3	
Commercial paper	\$	\$	\$	\$ -
Investments not subject to categorization:				
Guaranteed investment contract (Set aside as a requirement of the Michigan Municipal Bond Authority State Aid note program).				\$ 692,709

**HOMER COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 4 – CAPITAL ASSETS**

A summary of changes in the District's capital assets follows:

	Balance July 1, 2003	Additions	Deletions	Balance June 30, 2004
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 15,000		\$	\$ 15,000
Total capital assets not being depreciated	15,000			15,000
Capital assets, being depreciated:				
Buildings and improvements	5,001,793	200,431		5,202,224
Technology	504,122	15,828		519,950
Furniture and fixtures	1,777,441			1,777,441
Machinery and equipment	930,838	9,550		940,388
Transportation equipment	953,151	130,945	144,295	939,801
Total capital assets, being depreciated	9,167,345	356,754	144,295	9,379,804
Accumulated depreciation:				
Buildings and improvements	2,676,337	94,238		2,770,575
Technology	409,603	41,173		450,776
Furniture and fixtures	1,213,367	95,140		1,308,507
Machinery and equipment	761,463	61,292		822,755
Transportation equipment	754,181	61,117	144,295	671,003
Total accumulated depreciation	5,814,951	352,960	144,295	6,023,616
Net capital assets being depreciated	3,352,394	3,794	-	3,356,188
Net governmental capital assets	\$ 3,367,394	\$ 3,794	\$ -	\$ 3,371,188

Depreciation for the fiscal year ended June 30, 2004 amounted to \$352,960. The District determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

**HOMER COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 5 - NOTE PAYABLE**

At June 30, 2004, the District has a note payable outstanding of \$800,000. The note has an interest rate of 1.02% and matures August 20, 2004. The District has \$692,709 of funds on deposit with a financial institution, which are included in investments on the general fund balance sheet, to be applied against the \$800,000 note. The note is secured by the full faith and credit of the District as well as pledged state aid.

Balance June 30, 2003	Additions	Payments	Balance June 30, 2004
<u>\$ 800,000</u>	<u>\$ 800,000</u>	<u>\$ 800,000</u>	<u>\$ 800,000</u>

**NOTE 6 - LONG-TERM DEBT**

The District issues general obligation bonds to provide funds for the acquisition, construction and improvement of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the District. At June 30, 2004 the District has no general obligation bonds outstanding. Long-term obligations currently outstanding are as follows:

	Capital lease obligations and notes	Termination benefits and compensated absences	Limited obligation durant bonds	Total
Balance, July 1, 2003	\$ 170,962	\$ 604,882	\$ 77,862	\$ 853,706
Additions	15,829	4,805		20,634
Deletions	<u>57,380</u>			<u>57,380</u>
Balance, June 30, 2004	129,411	609,687	77,862	816,960
Less current portion	<u>61,832</u>	<u>50,787</u>		<u>112,619</u>
Total due after one year	<u>\$ 67,579</u>	<u>\$ 558,900</u>	<u>\$ 77,862</u>	<u>\$ 704,341</u>



**HOMER COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 6 - LONG-TERM DEBT (Concluded)**

Long-term obligation debt at June 30, 2004 is comprised of the following:

Limited obligation (Durant) bond, due in installments of \$6,179 to \$27,911 through May 15, 2013, with interest of 4.76%. Certain future state aid payments have been pledged as security.	\$ 77,862
Obligation under contract for compensated absences	609,687
Obligations under capital lease	30,932
Bus notes payable, due in monthly semi-annual installments of \$11,661 to \$25,775 through August 9, 2006, with interest from 4.25% to 5.85%	<u>98,479</u>
Total general long-term debt	<u><u>\$ 816,960</u></u>

Interest expense (all funds) for the year ended June 30, 2004 was \$10,165.

The Durant bonds, including interest, was issued in anticipation of payment to the District as appropriated and to be appropriated by the State of Michigan under Section 11g(3) of Act 94 (State Aid payments). The District has pledged and assigned to the bondholder all rights to these State Aid payments as security for the Bond.

The annual requirements to amortize long-term debt outstanding as of June 30, 2004, including interest of \$31,741, are as follows:

Year ending June 30,	Principal	Interest	Total
2005	\$ 61,832	\$ 5,876	\$ 67,708
2006	77,181	15,109	92,290
2007	22,157	3,109	25,266
2008	8,804	2,154	10,958
2009	6,783	1,776	8,559
2010 - 2013	<u>30,516</u>	<u>3,717</u>	<u>34,233</u>
Total	207,273	31,741	239,014
Accumulated compensated absences	<u>609,687</u>		<u>609,687</u>
	<u><u>\$ 816,960</u></u>	<u><u>\$ 31,741</u></u>	<u><u>\$ 848,701</u></u>

**HOMER COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 7 - INTERFUND RECEIVABLES AND PAYABLES**

Interfund payable and receivable balances at June 30, 2003 are as follows:

Receivable Fund		Payable Fund	
Special revenue	\$ 470	General	\$ 470

**NOTE 8 - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN**

Plan Description - The District contributes to the statewide Michigan Public School Employees' Retirement System (MPERS), a cost sharing multiple-employer defined benefit pension plan administered by the nine member board of the MPERS. The MPERS provides retirement benefits and postretirement benefits for health, dental and vision. The MPERS was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, P.O. Box 30026, Lansing, Michigan 48909 or by calling (517) 322-6000.

Funding Policy - Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9%. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment. Market rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.

The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rate for the year ended June 30, 2004 was 12.99%. The contribution requirements of plan members and the District are established and may be amended by the MPERS Board of Trustees. The District contributions to MPERS for the year ended June 30, 2004, 2003 and 2002 were approximately \$688,000, \$675,000, and \$630,000, respectively, and were equal to the required contribution for those years.

The District is not responsible for the payment of retirement benefits which is the responsibility of the State of Michigan.

Other Post-employment Benefits - Under the MPERS Act, all retirees have the option of continuing health, dental and vision coverage.

**HOMER COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 9 - RISK MANAGEMENT**

The District is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees' and natural disasters. The District participates in a distinct pool of educational institutions within the State of Michigan for self-insuring workers' disability compensation. The pool is considered a public entity risk pool. The District pays annual premiums to the pool for the respective insurance coverage. In the event the pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The pool maintains reinsurance for claims in excess of \$500,000 for each occurrence with the overall maximum coverage being unlimited. The District has not been informed of any special assessments being required.

The District continues to carry commercial insurance for other risks of loss, including property and casualty errors and omissions, fleet and employee health and accident insurance.

**NOTE 10 - TRANSFERS**

The general fund transferred \$123,880 and 129,458 to the athletic fund and the capital projects fund, respectively, during the current fiscal year.

**NOTE 11 - SUBSEQUENT EVENT**

Subsequent to the June 30, 2004 year-end, the District filed an intent to issue bonds totaling \$5,600,000 for new construction and renovations.

## **REQUIRED SUPPLEMENTARY INFORMATION**

**HOMER COMMUNITY SCHOOLS  
REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
YEAR ENDED JUNE 30, 2004**

	<b>Original budget</b>	<b>Final budget</b>	<b>Actual</b>	<b>Variance with final budget positive (negative)</b>
<b>REVENUES:</b>				
Local	\$ 595,450	\$ 765,319	\$ 732,698	\$ (32,621)
State sources	6,823,933	7,005,777	7,011,783	6,006
Federal sources	225,671	263,365	262,931	(434)
Incoming transfers and other transactions	481,000	531,000	530,999	(1)
Total revenues	8,126,054	8,565,461	8,538,411	(27,050)
<b>EXPENDITURES:</b>				
Current:				
Instruction:				
Basic programs	4,383,696	4,270,733	4,266,561	4,172
Added needs	971,813	1,073,710	1,070,810	2,900
Adult and continuing education		37,206	37,178	28
Total instruction	5,355,509	5,381,649	5,374,549	7,100
Support services:				
Pupil	204,364	184,950	185,191	(241)
Instructional staff	277,454	178,744	178,660	84
General administration	223,720	184,894	183,923	971
School administration	423,220	444,921	444,471	450
Business	171,800	280,218	280,268	(50)
Operations and maintenance	761,900	892,597	858,072	34,525
Transportation	475,401	606,087	615,232	(9,145)
Central	55,000	33,417	33,417	
Total support services	2,592,859	2,805,828	2,779,234	26,594
Community services	76,135	109,596	75,943	33,653
Outgoing transfers and other transactions	25,310	26,878	26,876	2
Total expenditures	8,049,813	8,323,951	8,256,602	67,349
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	76,241	241,510	281,809	40,299
<b>OTHER FINANCING SOURCES (USES):</b>				
Proceeds from capital lease		15,829	15,829	
Operating transfers out	(117,000)	(253,339)	(253,338)	1
Total other financing sources (uses)	(117,000)	(237,510)	(237,509)	1
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$ (40,759)</u>	<u>\$ 4,000</u>	44,300	<u>\$ 40,300</u>
<b>FUND BALANCE:</b>				
Beginning of year			999,255	
End of year			<u>\$ 1,043,555</u>	

## **ADDITIONAL INFORMATION**

**HOMER COMMUNITY SCHOOLS  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUND TYPES  
JUNE 30, 2004**

	<u>Special revenue</u>	<u>Capital projects</u>	<u>Total nonmajor Governmental funds</u>
<b>ASSETS</b>			
<b>ASSETS:</b>			
Cash	\$ 82,480	\$ 211,523	\$ 294,003
Due from other funds	470		470
Inventories	4,376		4,376
	<u>          </u>	<u>          </u>	<u>          </u>
<b>TOTAL ASSETS</b>	<u><u>\$ 87,326</u></u>	<u><u>\$ 211,523</u></u>	<u><u>\$ 298,849</u></u>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES:</b>			
Accounts payable	\$	\$ 76,537	\$ 76,537
Deferred revenue	3,459		3,459
	<u>          </u>	<u>          </u>	<u>          </u>
<b>TOTAL LIABILITIES</b>	<u>3,459</u>	<u>76,537</u>	<u>79,996</u>
<b>FUND BALANCES:</b>			
Reserved for inventory	4,376		4,376
Undesignated	79,491	134,986	214,477
	<u>          </u>	<u>          </u>	<u>          </u>
<b>TOTAL FUND BALANCES</b>	<u>83,867</u>	<u>134,986</u>	<u>218,853</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u><u>\$ 87,326</u></u>	<u><u>\$ 211,523</u></u>	<u><u>\$ 298,849</u></u>

**HOMER COMMUNITY SCHOOLS**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES**  
**NONMAJOR GOVERNMENTAL FUND TYPES**  
**YEAR ENDED JUNE 30, 2004**

	<u>Special revenue</u>	<u>Capital projects</u>	<u>Total nonmajor governmental funds</u>
<b>REVENUES:</b>			
Local sources:			
Investment income	\$	\$ 1,378	\$ 1,378
Other	277,294	9,588	286,882
	<hr/>	<hr/>	<hr/>
Total local sources	277,294	10,966	288,260
	<hr/>	<hr/>	<hr/>
State sources	9,327		9,327
Federal sources	145,838		145,838
	<hr/>	<hr/>	<hr/>
Total revenues	432,459	10,966	443,425
	<hr/>	<hr/>	<hr/>
<b>EXPENDITURES:</b>			
Current :			
Athletics	196,721		196,721
Food service	373,662		373,662
Capital outlay		148,028	148,028
	<hr/>	<hr/>	<hr/>
Total expenditures	570,383	148,028	718,411
	<hr/>	<hr/>	<hr/>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	(137,924)	(137,062)	(274,986)
	<hr/>	<hr/>	<hr/>
<b>OTHER FINANCING SOURCES:</b>			
Sale of school assets		8,000	8,000
Operating transfers in	123,880	129,458	253,338
	<hr/>	<hr/>	<hr/>
Total other financing sources	123,880	137,458	261,338
	<hr/>	<hr/>	<hr/>
<b>NET CHANGE IN FUND BALANCES</b>	(14,044)	396	(13,648)
	<hr/>	<hr/>	<hr/>
<b>FUND BALANCES:</b>			
Beginning of year	97,911	134,590	232,501
	<hr/>	<hr/>	<hr/>
End of year	\$ 83,867	\$ 134,986	\$ 218,853
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>



**HOMER COMMUNITY SCHOOL DISTRICT  
SPECIAL REVENUE FUNDS  
COMBINING BALANCE SHEET  
JUNE 30, 2004  
(with comparative totals for June 30, 2003)**

	School lunch fund	Athletics Fund	Totals	
			2004	2003
<b>ASSETS</b>				
Cash and equivalents	\$ 82,480	\$	\$ 82,480	\$ 95,510
Inventory - food service	4,376		4,376	4,666
Due from general fund		470	470	470
Total assets	<u>\$ 86,856</u>	<u>\$ 470</u>	<u>\$ 87,326</u>	<u>\$ 100,646</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Deferred revenue	<u>\$ 3,459</u>		<u>\$ 3,459</u>	<u>\$ 2,735</u>
Fund balances:				
Reserved for inventory	4,376		4,376	4,666
Undesignated	<u>79,021</u>	<u>470</u>	<u>79,491</u>	<u>93,245</u>
Total fund balances	<u>83,397</u>	<u>470</u>	<u>83,867</u>	<u>97,911</u>
Total liabilities and fund balances	<u>\$ 86,856</u>	<u>\$ 470</u>	<u>\$ 87,326</u>	<u>\$ 100,646</u>

**HOMER COMMUNITY SCHOOL DISTRICT  
SPECIAL REVENUE FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
YEAR ENDED JUNE 30, 2004  
(with comparative totals for the year ended June 30, 2003)**

	School lunch fund	Athletics Fund	Totals	
			2004	2003
<b>REVENUES:</b>				
Food sales	\$ 203,889	\$	\$ 203,889	\$ 201,787
Federal aid	145,838		145,838	144,054
State aid	9,327		9,327	12,584
Interest and miscellaneous	564		564	5,231
Athletic events		72,841	72,841	51,347
Total revenues	359,618	72,841	432,459	415,003
<b>EXPENDITURES:</b>				
Salaries and wages	171,096		171,096	158,655
Employee benefits	29,191		29,191	27,947
Supplies and other expenses	23,889		23,889	23,844
Food costs	149,486		149,486	154,185
Capital outlay				5,234
Athletic expenses		196,721	196,721	175,997
Total expenditures	373,662	196,721	570,383	545,862
<b>DEFICIENCY OF REVENUES OVER EXPENDITURES</b>	(14,044)	(123,880)	(137,924)	(130,859)
<b>OTHER FINANCING SOURCES:</b>				
Operating transfer in from general fund		123,880	123,880	124,650
<b>NET CHANGE IN FUND BALANCES</b>	(14,044)		(14,044)	(6,209)
<b>FUND BALANCES, beginning of year</b>	97,441	470	97,911	104,120
<b>FUND BALANCES, end of year</b>	\$ 83,397	\$ 470	\$ 83,867	\$ 97,911

**HOMER COMMUNITY SCHOOL DISTRICT  
CAPITAL PROJECTS FUND  
BALANCE SHEET  
JUNE 30, 2004  
(with comparative totals for June 30, 2003)**

	<u>2004</u>	<u>2003</u>
<b>ASSETS</b>		
Cash	<u>\$ 211,523</u>	<u>\$ 134,590</u>
 <b>LIABILITIES AND FUND BALANCE</b>		
Liabilities:		
Accounts payable	\$ 76,537	\$
Fund balance:		
Unreserved	<u>134,986</u>	<u>134,590</u>
 TOTAL LIABILITIES AND FUND BALANCE	 <u>\$ 211,523</u>	 <u>\$ 134,590</u>

**HOMER COMMUNITY SCHOOL DISTRICT  
CAPITAL PROJECTS FUND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
YEAR ENDED JUNE 30, 2004  
(with comparative totals for the year ended June 30, 2003)**

	<u>2004</u>	<u>2003</u>
<b>REVENUES:</b>		
Investment income	\$ 1,378	\$ 832
Other income	<u>9,588</u>	<u>3,272</u>
Total revenues	10,966	4,104
<b>EXPENDITURES:</b>		
Capital outlay	<u>148,028</u>	<u>129,123</u>
<b>DEFICIENCY OF REVENUES OVER EXPENDITURES</b>	<u>(137,062)</u>	<u>(125,019)</u>
<b>OTHER FINANCING SOURCES:</b>		
Sale of school property	8,000	
Operating transfer in	<u>129,458</u>	<u>75,000</u>
Total other financing sources	<u>137,458</u>	<u>75,000</u>
<b>NET CHANGE IN FUND BALANCE</b>	396	(50,019)
<b>FUND BALANCES:</b>		
Beginning of year	<u>134,590</u>	<u>184,609</u>
End of year	<u><u>\$ 134,986</u></u>	<u><u>\$ 134,590</u></u>

**HOMER COMMUNITY SCHOOL DISTRICT  
FIDUCIARY FUNDS  
(INTERNAL FUNDS)  
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS  
AND LIABILITIES BY ACTIVITY  
YEAR ENDED JUNE 30, 2004**

	Balance 6/30/2003	Receipts	Disbursements	Balance 6/30/2004
Academic Boosters Club	\$ 1,848	\$ 6,183	\$ (4,896)	\$ 3,135
Academic Service Learning	545	1,191	(1,065)	671
Band Bach Club	292	2,776	(2,587)	481
Band store supplies	(7)	315	(66)	242
Band Boosters-Parents Group	6,334	30,809	(28,802)	8,341
Chicago Trip-7th Grade	389	9,730	(9,639)	480
Class of 2001	756		(756)	-
Class of 2003	339	200	(539)	-
Class of 2004	3,325	1,659	(4,477)	507
Class of 2005	2,186	7,982	(6,185)	3,983
Class of 2006	864	490	(268)	1,086
Class of 2007	1,174	583	(302)	1,455
Class of 2008	321	675	(172)	824
Class of 2009	156	66	(57)	165
Class of 2010	76	152	(28)	200
Class of 2011		66		66
Class of 2013		4,002		4,002
Class of 2014		4,500		4,500
Class of 2015		2,293		2,293
Class of 2016		873		873
Class of 2017		398		398
Communications Camp	291			291
Concessions-Pop Fund	4,523	41,951	(43,008)	3,466
Draime Golf Tournament	7,623	18,988	(23,396)	3,215
Warren Dexter Fund	50		(55)	(5)
Elementary Clothing	477	499	(263)	713
Elementary Media Activities	1,203	5,800	(5,081)	1,922
Elementary Pop Fund	961	883	(1,804)	40
Elementary Social Fund	11		(11)	-
Fine Arts Parents Fund	387	100	(225)	262
Fourth Grade Trip Fund	3,902	24,595	(23,059)	5,438
Future Farmers of America	1,566	24,713	(26,112)	167
Homer Soccer Program	1,576	4,925	(5,093)	1,408
Homer Student Loan	200	60		260
Homer Trojan Pre-school				

**HOMER COMMUNITY SCHOOL DISTRICT  
FIDUCIARY FUNDS  
(INTERNAL FUNDS)  
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS  
AND LIABILITIES BY ACTIVITY  
YEAR ENDED JUNE 30, 2004**

	Balance 6/30/2003	Receipts	Disbursements	Balance 6/30/2004
H.S. Choir	\$ 464	\$	\$	\$ 464
H.S. Drama Club		4,222	(2,608)	1,614
H.S. Guidance	616	485	(407)	694
H.S. Media Center	1,039	4,176	(3,503)	1,712
I Can Read to You		1,700		1,700
Inservice	2,156	30		2,186
Interest Account	1,445	3,061	(2,405)	2,101
W.K. Kellogg Excellence				
M. S. Student Activity	7,597	23,829	(26,780)	4,646
Mystery Trip (Prom Night)	2,099	1,853	(3,851)	101
National Honor Society	1,117	294	(766)	645
P.T.O.	13,601	35,187	(42,327)	6,461
Peer Listening	39		(30)	9
S.A.D.D.	299	3,130	(3,302)	127
Spanish Club	587	300	(110)	777
Student Council	1,156	974	(1,215)	915
Summer Recreation	5,517	11,750	(19,139)	(1,872)
Tech Kids		1,650	(222)	1,428
Trojan Yearbook	6,758	5,922	(4,640)	8,040
Varsity Club	10,189	37,743	(37,333)	10,599
Youth Basketball	1,370	4,540	(5,172)	738
Youth Grant	1,563	14,592	(8,000)	8,155
Youth in Government	3	3,071	(3,071)	3
Other:				
Board operating	1,272	9,995	(10,020)	1,247
B. Edwards Emergency Fund	360			360
Bus Garage Account	-			
Career & Community	26			26
Community Education	3,569	3,437	(4,252)	2,754
H-Club (Trojan Wear Sold)	584	4,979	(4,742)	821
High School Office Account	21	925	(817)	129
Homer alumni-Ballentine	2,400	1,128	(900)	2,628
Homer alumni-general account	2,332	1,905	(2,445)	1,792
Homer Area Community Foundation		2,482	(2,482)	
Preschool Program-Parent Paid	2,193	2,615	(3,830)	978
Revolving	688	96,472	(96,236)	924
Store-supplies	303			303
Vendor rebates	130			130
<b>TOTAL</b>	<b>\$ 112,861</b>	<b>\$ 479,904</b>	<b>\$ (478,551)</b>	<b>\$ 114,214</b>

**HOMER COMMUNITY SCHOOL DISTRICT  
BONDED DEBT  
JUNE 30, 2004**

\$121,874 Durant Bond issued November 24, 1998:

Principal due May 1	Interest due May 15	Debt service requirement for fiscal year	
		June 30,	Amount
\$	\$	2004	\$ -
		2005	-
27,911	12,476	2006	40,387
6,179	2,378	2007	8,557
6,474	2,084	2008	8,558
6,783	1,776	2009	8,559
7,105	1,453	2010	8,558
7,443	1,115	2011	8,558
7,798	760	2012	8,558
8,169	390	2013	8,559
<u>\$ 77,862</u>	<u>\$ 22,432</u>		<u>\$ 100,294</u>

The above bond issue bears interest at 4.76%. The bond proceeds were used for erecting, furnishing and equipping additions to the existing high school building and developing and improving the site.

This bond, including the interest hereon, is issued in anticipation of payments appropriated and to be appropriated by the State under Section 11g(3) of Act 94 to the School District (the "State Aid Payments"). The School District hereby pledges and assigns to the Authority all of its rights to and in such State Aid Payments as security for this bond and the State Aid Payments which are hereby pledged shall be subject to a statutory lien in favor of the Authority as authorized by Act 94. This bond is a self-liquidating bond and is not a general obligation of the School District and does not constitute an indebtedness of the School District within any constitutional or statutory limitation, and is payable both as to principal and interest, solely from such State Aid Payments. The School District, as requested by the Authority, hereby irrevocably authorizes the payment of the State Aid Payments directly to the Authority's Depository.



Gary W. Brya  
Lamonte T. Lator  
Bruce J. Dunn  
Jeffrey C. Stevens  
Linda I. Schirmer  
Steven W. Scott  
David M. Raeck  
Robert E. Miller, Jr.  
Steven B. Robbins  
James E. Nyquist

James R. Dedyne  
Timothy H. Adams  
David B. Caldwell  
Edward L. Williams, III  
Timothy J. Orians  
Dennis D. Theis  
  
Walter P. Maner, Jr.  
Floyd L. Costerisan  
Leon A. Ellis (1933-1988)

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Education  
Homer Community Schools  
Homer, Michigan

July 15, 2004

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Homer Community Schools as of and for the year ended June 30, 2004, which collectively comprise the basic financial statements of the District's primary government and have issued our report thereon dated July 15, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Homer Community Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Homer Community Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting, which we have reported to management of Homer Community Schools in a separate letter dated July 15, 2004.



To the Board of Education  
Homer Community Schools

July 15, 2004

This report is intended solely for the information and use of the board of education, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Mamay, Costenusa & Ellis, P.C.*

Certified Public Accountants



Gary W. Brya  
Lamonte T. Lator  
Bruce J. Dunn  
Jeffrey C. Stevens  
Linda I. Schirmer  
Steven W. Scott  
David M. Raeck  
Robert E. Miller, Jr.  
Steven B. Robbins  
James E. Nyquist

James R. Dedyne  
Timothy H. Adams  
David B. Caldwell  
Edward L. Williams, III  
Timothy J. Orians  
Dennis D. Theis  

---

Walter P. Maner, Jr.  
Floyd L. Costerisan  
Leon A. Ellis (1933-1988)

July 15, 2004

To the Finance Committee  
Homer Community School District  
Homer, Michigan

We have audited the financial statements of Homer Community School District for the year ended June 30, 2004, and have issued our report thereon dated July 15, 2004. Professional standards require that we provide you with the following information related to our audit.

1. Our Responsibility under U.S. Generally Accepted Auditing Standards and Government Audit Standards

As stated in our engagement letter dated June 8, 2004, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting standards. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of Homer Community School District. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of Homer Community Schools' compliance with certain provisions of laws, regulations, contracts and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

2. Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Homer Community School District are described in Note 1 to the financial statements. During 2004, the District adopted the new governmental reporting model as required by Governmental Accounting Standard Board (GASB) Statement No. 34. We noted no transactions entered into by Homer Community School District during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

3. Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Estimates have been used in calculating the liability for employee compensated absences. At June 30, 2004 the balance reported was \$609,687. Certain amounts included in capital assets have been based on an outside appraisal company.

4. Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Homer Community School District's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Homer Community School District, either individually or in the aggregate, indicate matters that could have a significant effect on the Homer Community School District's financial reporting process. All proposed adjustments have been recorded.

5. Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

6. Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

7. Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Homer Community School District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

8. Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit. During the year a \$500,000 gift was given to a foundation to benefit Homer Community Schools. In our opinion, accounting principles under GASB Statement #39 would require the Foundation to be presented as a component unit. Our independent auditor's report discloses this component unit has been omitted.

This information is intended solely for the use of the board of education, management, and federal awarding agencies and pass through entities and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the opportunity to be of service and would be happy to discuss the foregoing items at your convenience.

Very truly yours,

*Mama, Costeniser & Ellis, P.C.*



Gary W. Brya  
Lamonte T. Lator  
Bruce J. Dunn  
Jeffrey C. Stevens  
Linda I. Schirmer  
Steven W. Scott  
David M. Racek  
Robert E. Miller, Jr.  
Steven B. Robbins  
James E. Nyquist

James R. Dedyne  
Timothy H. Adams  
David B. Caldwell  
Edward L. Williams, III  
Timothy J. Orians  
Dennis D. Theis  
Walter P. Maner, Jr.  
Floyd L. Costerisan  
Leon A. Ellis (1933-1988)

July 15, 2004

To the Board of Education  
Homer Community School District  
Homer, Michigan

In planning and performing our audit of the financial statements of Homer Community School District for the year ended June 30, 2004, we considered the Homer Community School District's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit we became aware of certain matters that are opportunities for strengthening internal controls and operating efficiency. The comments and suggestions regarding those matters follow. This letter does not affect our report dated July 15, 2004, on the financial statements of Homer Community School District.

#### **Cafeteria Fund**

Currently, the cafeteria fund transactions are accounted for on a different system than the rest of the funds. While the current system leaves an appropriate audit trail, a trial balance should be prepared to enter the information into the general ledger system the District uses for the other funds on a monthly basis. This is a repeat comment.

#### **Insurance Coverage**

The District has various levels of insurance. During the course of our audit, it was determined that employer dishonesty coverage was \$25,000. We recommend this be reviewed and increased to at least \$250,000, if possible.

We also recommend a formal review of insurance be performed annually.

**Review Bank Reconciliation Duties**

Internal control is most effective when the bank reconciliation is prepared by someone not responsible for entries in the receipts and disbursements records. Inasmuch as this is difficult because of the small number of office employees. In addition, we noted the person responsible for performing the bank reconciliation are not reviewed. We recommend someone other than the preparer of the reconciliation review, approve, and initial the bank reconciliation each month. Currently, the bank statements are received and reviewed by the Superintendent.

**Government Accounting Standards Board (GASB) Statement #40 “Deposit and Investment Disclosures”**

Effective June 30m 2005, governmental entities will be required to expand their current disclosure requirements addressing common risks of the deposits and investments. The disclosure requirements apply to dept and an equity investment held directly by the entity or indirectly by investment advisors and requires that a governmental entity disclose investment policies that are related to custodial credit risk, custodial risk, concentration of credit risk, interest rate risk and foreign currency risk. If the entity has adopted no policy with respect to a particular risk, that fact should be part of the disclosure.

The District should review its investment policies to determine all common risk areas are identified and the appropriate level of risk of each area is quantified.

**SEC Rule NO. 240-15c2-12 Continuing Disclosure Requirements**

This rule requires issuers of municipal securities in aggregate principal amount of \$1 million or more to report financial and operation information and notices of material events to nationally recognized municipal securities information repositories and to state information repositories.

Due to the complex nature of the reporting requirements we recommend you consult with your bond counsel and financial advisor to determine what procedures if any you should do to be in compliance with these procedures.

### **Bonds**

For all bonds issued after May 1, 1994, a separate interim audit must be completed for each individual series of a bond authorization prior to the issuance of the next series. This interim audit must be completed within 120 days after completion of all projects and filed immediately with the Department of Treasury. This requirement is pursuant to Section 1351a(2) of Acts 451 of the Public Acts of 1976. The management of the District should contact us with information as to the completion of all capital projects meeting this requirement so we can perform our audit procedures in a timely manner.

### **Financial Information Database (FID) Filing**

The Center for Educational Performance and Information (CEPI) is preparing for the implementation of a new upload application/database for financial reporting for school districts in Michigan. This new application/database is called the Financial Information Database (FID). This submission is due November 15, 2004. The EDN/Form B submission process has been eliminated and is no longer available. We strongly recommend your filing be done earlier this year to ensure all changes have been accepted. The penalty for late filing is withholding of your state aid by the state of Michigan.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various school district personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

To the Board of Education  
Homer Community School District  
Homer, Michigan

4

July 15, 2004

This report is intended solely for the information and use of Homer Community School District, management, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the cooperation we received from your staff during our engagement and the opportunity to be of service.

Very truly yours,

*Mamie Costeniser & Ellis, P.C.*